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The Rehabilitation of Europe Dependent Upon America

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NEVER has a nation been faced by a graver responsibility or had a greater opportunity for good than the responsibility and opportunity which are right in front of America today. If America accepts the responsibility and uses her opportunity, the world will move forward under American leadership to a state of well-being never hitherto attained. If, however, America refuses responsibility and neglects her opportunity, then every nation including America will sink into unprecedented poverty.

Before the world was so closely bound together by economic, financial and other ties, each nation had to live its own circumscribed life and to be content with that degree of well-being or ill-being brought about by the unavoidable fluctuation in the volume of its annual production. But ever since the introduction of the railway, the steamship and the banking system created a great volume of international trade, these conditions have gradually disappeared, and now if any nation falls into misfortune almost the whole world shares that misfortune, while if any nation enjoys prosperity, all the world shares in its good fortune. Hence the extremely wide fluctuations in the fortunes of individual nations which occurred in former times have become much

less violent and every nation makes more regular and more sustained progress.

The increasing well-being of every nation, arising from the development of world-production and of world-trade, has not only enabled the progressive nations of Europe to buy the produce and goods of other countries much more freely, but it has also permitted them to supply capital to nations which needed it, for the purpose of opening them up to trade and developing their natural resources, thereby making their productions available to the entire world.

America could never in so short a space of time have attained the high degree of prosperity she had reached prior to the War but for the supplies of European capital obtained for the construction of railways in the agricultural and mineral districts. Nor could America have developed her productive power in the wonderful manner she did had she not enjoyed wide markets for her products in the densely populated countries of Europe.

On the other hand, it would have been impossible for the European nations to have maintained their rapidly increasing populations but for supplies of food and raw material, especially cotton, from the United States. The American people were assisted and stimulated to produce freely in order not only to satisfy their own needs, but to send to Europe products in payment for foreign goods and services as well as for interest upon the credit or capital they obtained from Europe.

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Europe was a friendly banker to America, as well as a good customer.

REVERSAL OF POSITION

The disaster of the War has completely reversed this position. In consequence of the War and of the great demand for American produce at high prices, America has been able to repay the greater part of the capital which she had previously borrowed from Europe and, moreover, has been able to lend to Europe a very large sum of money. Therefore, instead of America's needing a good foreign market for her produce in order to pay the interest and principal of the sums she has borrowed, she herself now needs to give a good American market to enable Europe to pay interest and principal on the sums she has lent. Before the War, America needed to sell abroad produce to the value of 250 to 300 million dollars a year in order to pay interest to Europe on capital borrowed, whereas, now, she needs to buy from abroad, goods and produce to the value of nearly 1,000 million dollars a year to enable Europe to pay the interest on as well as the principal of the sums America has lent.

The American people have ceased to be world-debtors and have become world-creditors. From needing foreign banking accommodation they have become world-bankers. From needing mainly to sell, they now need mainly to buy. In fact, the War has changed America into a world-banker and a world-trader. World-banker implies world-trader, that is, one willing to sell goods on credit to other nations and to accept payment of interest and principal in other goods or produce.

The extraordinary increase in the wealth of the British people, living as they do on a few small islands, is

entirely due to the fact that they became world-bankers and therefore world-traders, employing their capital wherever it could be profitably employed, supplying to other nations goods upon credit and buying from other nations whatever produce or goods these nations might desire to sell in order to make payment of credits granted.

AMERICA AS WORLD-BANKER

The question which America has now to decide is whether she will remain a world-banker and become a world-trader, or whether she will endeavor to confine her banking and trading activities to the limits of her own boundaries. If America should seek to reverse her policy of recent years, then not only would she be unable to sell anything like the quantity of produce she has sold since the War began, but she would be unable to sell as much as she sold prior to the War. The present inability of American cotton planters to sell their cotton in foreign markets would be not temporary, but permanent, and the existing difficulty of selling American agricultural products to other countries would be intensified. The foreign demand for American mineral products would also permanently decline, while foreign buying of American manufactured goods would entirely disappear. Nor would there be any expansion in the American home demand to make good the loss of the foreign demand.

With the loss of their foreign markets, American cotton planters and pickers would be able to buy less, not more, food or manufactured goods. With the loss of the foreign demand for their products and with a diminished demand from the cotton states, American farmers would be compelled to buy fewer manufactured goods, and to use

the railways less freely. At the same time, the contraction in home demand for American manufactured goods, arising from the inability of American cotton planters and farmers to sell their produce abroad, would plunge the industrial and banking districts of America into great poverty.

Upon the well-being of the rest of the world, the effect of the restriction of America's activities to the limits of her own boundaries would be even more disastrous. The increasing production of American cotton, of American foodstuffs and of American manufacturing specialties and the ability of the rest of the world to buy them, have hitherto immensely contributed to the expansion of world-prosperity, and if the peoples of the world were unable to obtain them in the future, a most distressing situation would arise.

The War has most seriously reduced the power of Europe to grow her own food by reason of the very severe loss of manpower which it entailed. At the same time, war and civil war have immensely reduced the production of Russia, the country which, prior to the War, supplied the manufacturing nations of Europe with even more food than America did then or is doing now. If for any reason, such as lack of credit and the inability of Europe to make payment, America were unwilling to supply Europe with food at the same time that Europe's own productions were small and no supplies from Russia were available, a large percentage of the people of Europe would inevitably starve. A situation would then be created over the whole of Europe similar to that existing in Russia. The starvation of Europe as well as of Russia would inevitably entail poverty and anarchy throughout the entire world, from which America herself could not escape.

THE CREDIT SITUATION

If Europe is to continue to buy American food, cotton, minerals and manufactures, it is obvious that America must be prepared to give additional credit until Europe is able to make payment and America is willing to accept payment in goods and produce. At the present moment Europe needs her own goods for the purpose of repairing the war damage, and even if America were willing to buy them Europe could not sell very much; but to justify herself in raising additional credit in America Europe must see her way to the payment of the interest and principal of such credits by means of her exports and by the services she is prepared to render to American tourists. With the present avowed policy of America to prevent the influx of imported goods and produce as far as possible, Europe cannot see how it will be possible for her to pay the existing annual sums she owes to America for interest and principal, leaving out of account the service of the additional credits she requires.

Thus one of the first things essential to the rehabilitation of Europe is the abandonment by America of a policy designed to promote exports and to restrict imports, plus the full recognition of the actualities of the existing situation in which America has no longer to pay interest abroad but has to receive large sums both for interest and for principal, a situation that demands at least as much willingness to import as to export.

As soon as America makes it clear that she is willing to accept repayment of her credits, together with interest on them, in goods, produce and services, the credit situation will at once improve. It is obvious that Europe will be in no position to send immense quantities of goods to the United States

in repayment of short credits, nor would the American people be willing to buy European goods in sufficient quantity to enable short credits to be redeemed. Credits of twenty-five or thirty years, carrying sinking funds of 2 or $2\frac{1}{2}$ per cent per annum at the outside, are essential both from the point of view of the lender and of the borrower, if Europe is to continue to buy from America at the present time. Credits to Europe must be financed by investors rather than by bankers, and by securities and good bonds rather than by short bills.

Owing to the great fall in prices, which has largely resulted from the difficulty experienced by Europe in buying what she needs, the amount of the credit required from America is now much less than it was two years ago before prices had fallen. Nevertheless, the sum needed is enough to absorb the whole of America's surplus production of food, cotton and manufactured goods for the next five years, surpluses which will not be sold unless credit is granted. When a great structure needs to be rebuilt after a fire, the whole work must be completed if it is to be of real value. The task of restoring Europe demands that it should be carried to completion so that the various nations will have no difficulty in earning incomes large enough to enable them to become self-supporting and to repay the interest upon and principal of any credit that may be granted for the purpose of reconstruction.

Last year, America's excess of exports over imports was about £400 millions sterling. If prices fall still lower, as they are likely to do until adequate credits are granted, it may be that the value of America's surplus available for export will decline further, but on the basis of last year's prices and allowing for interest upon

existing credits, Europe will probably need additional credits from America of about this sum annually for the next five years. This is about the sum that will be required if Europe is to restore her productive power, adjust her budget balances and reorganize her currencies. At the end of five years, however, Europe should need no further credit, and should pay annually whatever sum for interest is due, as well as a reasonable percentage of the sums borrowed.

SECURITY AND PAYMENT

America cannot be expected to grant these credits without adequate security and, if adequate security is to be given, Europe must adopt a policy that will completely assure American investors that, after the credits have been granted and spent, Europe will be able to repay her debt. This assurance can be given only if all the European nations greatly reduce their armaments, pursue a policy which guarantees peace and assist each other to recover from their injuries. Neither can it be given unless the American people are willing to accept payment of interest and principal of any credit in goods and services.

It is clear that both Germany and Great Britain are still fundamentally strong and that their productive power is large enough to take care of any reasonable obligations they may incur. Credit granted by America to Europe must be based mainly on the ability of Germany and Great Britain to redeem it.

Responsibility for the reparation of Europe has already been accepted by the German government, but the amount demanded for reparation is so large as to be beyond the power of any nation to pay it. If America could secure the adjustment of the

reparation claim to Germany's powers of payment, another great obstacle to prosperity would be removed. America needs to discover how much Germany can and will pay annually towards the reparation of Europe, and how much America would be justified in lending to Europe in anticipation of Germany's annual payments. Reparation can be paid by Germany over a long period of years, but the work of reconstruction cannot be delayed and credits need to be raised as the work proceeds on the security of Germany's promise and ability to pay.

The responsibility of collecting the annual reparation payments from Germany must rest with the nations to whom reparation is due. Nevertheless, it is essential to bear in mind that the power of most of the nations of Europe to redeem any credit granted to them for reconstruction will greatly depend upon the receipt of reparation from Germany. If for any additional credits she grants, America were able to obtain the combined guaranty of the European nations receiving the reparation, backed by the willing promise of Germany to make reasonable reparation, the security of the credit would be unquestionable. Of course, this assumes that America will be willing to accept payment of interest and principal of such credit in world-produce freely. Unless America were willing to import the produce and goods that must be sent to her, and to receive the services which Europe could render to her for interest and principal of

her credit, it is obvious that the credit could not be repaid even when Europe was restored.

SUMMARY

Thus the rehabilitation of Europe in large measure depends upon the following factors:

1. Without the assistance of the United States, the rehabilitation of Europe will be impossible and trade depression, unemployment and starvation will grow still more intense.
2. It is essential for America to maintain her position as "world-banker" which she assumed during the War.
3. It is equally essential that America should now definitely assume the function of "world-trader," the corollary of "world-banker," and that she should not only sell her own productions freely, but should buy without hindrance or restriction the productions of other nations.
4. America must grant additional credit to Europe for reconstruction purposes on the security of German reparations plus the guaranties of the Entente nations, to the limit of her surplus supplies of produce and goods—supplies which otherwise she would be unable to sell.
5. America must freely accept payment for any international credits she may grant in international goods and services.